POSITION PAPER

# The reform of the Own Resources system

*Economic affairs, tax & the EU budget*

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# 1. STATE OF PLAY: COMPELLING NEED TO REFORM THE EU REVENUE SYSTEM IN ORDER TO BE ABLE TO FINANCE THE EU NEEDS AND POLITICAL PRIORITIES

**Today's budget, its mechanisms and management show the limits of the current approach**.

In its attempts to respond to globalisation, economic, social and financial crises, environmental issues and migration challenges within only a few years, the European Commission (EC) adapted the EU budget to each new crisis response by creating new financial instruments, which are outside the traditional structure defined by the Treaties. The current Multiannual Financial Framework (MFF) is unable to respond to new and long terms challenges. The scarcity of resources has led to **a viscous cycle of constant cuts and redeployments as well as** to a lack of budgetary readability and visibility of the EU's priorities.

Article 311 of the TFUE states that **"the Union shall provide itself with the means necessary to attain its objectives and carry through its policies**. **Without prejudice to other revenue, the budget shall be financed from own resources"**.

Despite this fact, the functioning of the budget has shifted from being originally largely based on own resources (VAT, custom duties, sugar levies, agricultural levies, etc.) to being mainly based on national contributions. Between 1988 and 2014 the share of own resources (traditional and TVA-based own resources) decreased from 85 % to 23 % of the EU budget and the GNI-based own resource increased from 11 % to 69 %.

Since the contributions from the Members States (MS) are nowadays so predominant, the EU budget is left to the mercy of the MS and thus weakened. Thus, every year during the budgetary procedure, each national minister of finance has to face a choice: either to reduce the EU budget or to reduce the national budget. Unfortunately, most of the times the finance ministers choose to cut the EU budget.

Furthermore, an EU budget mostly based on GNI contributions has had consequences in terms of **fairness:** since the MS have different tax systems, it is not clear where such contributions come from, meaning, on which citizens they are levied. This could prejudice **the equal treatment of EU citizens**.

In addition, the shift reflects the reality in which **narrow national interests prevail over the collective EU's interest** and **the twisted, old fashioned logics of the '<u>zero sum game'</u> and the '<u>national (un)fair return'</u> prevail**.

During the last MFF negotiations the S&D support was linked to the creation of a High Level Group on Own Resources (HLGOR). At the beginning of 2017 and after three years of work, the HLGOR, led by Mario Monti, published a report outlining the perspectives for new own resources. With the next MFF negotiations coming up it is also time to reform the current own resources system and to create new own resources.

The European Commission will release a proposal to reform the OR in May 2018, in parallel with the MFF package. Therefore, the S&D Group has to adopt a clear position in advance.

## 2. TARGETED OBJECTIVES OF THE REFORM

**It is high time to deliver the MS from having to make a choice between financing their national budgets and financing the EU budget as both are complementary and have the same aim: the wellbeing of their citizens.**

**The EU revenue can no longer be seen as a fiscal burden for the national treasuries or for the citizens.**

**The existing and future OR such as VAT or custom duties collected by the MS on behalf of the EU should be accounted for in a separate budgetary item in the national budget of the member state that collects the revenue.**

**The S&D Group believes that a reform of the OR system is a win-win scenario as it will not create any additional burden for European citizens and since new genuine own resources will lead to a reduction of the MS's GNI-based contributions**.

The reform must serve democracy and bring the power to levy taxes back at EU level - a power, which has been eliminated at national level by globalisation.

**The S&D Group seeks to make the EU budget simpler and more predictable in order to provide for fair and stable finances at European level.**

In line with the solidarity principle and in view of building a common future we call for an abolishment of the 'zero sum game' principle and the 'national (un)fair return' as well as for a repeal of all types of rebates. Moreover, we call for a revision of all correction mechanisms.

We believe that new genuine OR are vital to comply with the MS's commitments and common ambitions. The reform is essential to solve the recurrent problem of lacking sufficient payment appropriations in the annual budgetary procedure as well as to overcome the cost of more than 24 billion EUR per year, which is expected to result from 'Brexit' and from new priorities in the next MFF, and to avoid potential spending cuts in major EU policies, such as the Common Agricultural Policy and the cohesion policy, as presented in the EC's "Reflection Paper on the Future of EU Finances".

**Our objectives for the reform are the following:**

- To reduce the burden for national taxpayers: to underpin national budgets by reducing
  the national contributions to the EU budget
- To ensure an equal treatment of citizens through a fair, readable and transparent system
- To favour common interests of the EU citizens as opposed to narrow national interests
- To respond to new and long-term challenges
- To provide means necessary to attain the EU objectives and common ambitions
- To limit the risks of a budgetary deflation (as already the 'Founding Mothers and Fathers' had warned us)
- To make the EU budget simpler and more predictable

To endow coherence between the revenue and expenditure in the EU budget

## 3. PRINCIPLES THAT WE WANT TO RESPECT AND BE APPLIED IN FUTURE

Principles

The S&D Group has solid, fundamental principles for assessing "candidates" for new own resources: **fairness, equity, simplicity, stability, transparency, democracy and an efficient administration**.

**The S&D "candidates" for new own resources must:**

- **Have a clear European added value or be linked to EU competences;**
- **Reflect our political priorities, mainly fighting tax evasion and avoidance, preventing tax circumvention mechanisms between Member States, reducing the risk of financial speculation, and addressing social and environmental issues;**
- **Be considered at the EU-27 level (through a proposal by the EC). Only if it appears impossible to be accepted by all MS, it should be considered at the level of the Euro area.**

We believe that the reform can be implemented within the current Treaty framework and **without compromising any MS's fiscal competences**.

Furthermore, the reform should exclude the GNI-based contributions to the EU budget from the deficit calculations under the Stability and Growth Pact, so as to encourage the MS to invest in the European project.

Procedure

The initial decision of introducing a new source of revenue at EU level remains a national competence. Consequently, unanimity in the Council (CLS) and ratification by each MS are required. The CLS adopts its decision after having consulted the European Parliament (EP).

We believe that the way the EU budget is financed is just as important as the way it is spent.

Furthermore, to fulfil our obligations towards the European citizens, both Council and Parliament shall be able to vote not only the expenses but also the resources of the Union.

**Therefore, we call for a more democratic, accountable and transparent way of approving the OR.**

**We believe that the Council should decide on the own resources by a qualified majority instead of unanimity and we believe that the Parliament should take part in the decision making process on an equal footing with the Council.**

**We encourage our S&D Governments to advocate for this cause.**

## 4. THE S&D CANDIDATES FOR NEW OWN RESOURCES

We agree with the concept of a balanced **basket of different new OR** as stated in the 'Monti' report on *The future financing of the EU,* issued by **the High Level Group on Own Resources (HLGOR)**. 'A basket' or a broad approach compensates possible disadvantages created by one of the new own resources. In case of an economic downturn, a rainy-day fund, GNI-based contributions, as well as EU-issued securities are all viable means to compensate for a tax revenue shortage.

We point out that the HLGOR put forward a wide range of potential new OR, including a reformed VAT-own resource, corporate income tax, financial transaction tax, a reform of the EU Emissions Trading System and a CO2 levy, transport taxation, taxation of electricity or revenues deriving from the digital single market.

**We strongly oppose the creation of any new tax on those citizens who already pay their taxes and who we wish to protect. For that reason, we target those who do not pay or avoid to pay their taxes. Thus, our reform aims to a large extend at global transactions and global players.**

We propose a number of options to be part of the reform, some of them being elaborated and ready to be implemented (ECIT, FTT, and income from the European Central Bank profits), while others need to be further developed (carbon taxes or carbon adjustment mechanism, robotization and digital sector based own resource) :

**European Corporate Income Tax (ECIT)**

- Provides a strong European added value as it is a key to reduce tax avoidance and fiscal competition among MS.
- Restores the capacity to levy taxes on global firms, including on digital companies (which has been eliminated by globalisation and the increase of intangible assets).
- Meets our democracy and equity criteria (multinational corporations that benefit most from the EU, from the globalisation and the Single Market must contribute to the financing of the EU).
- Aims at more fairness on the market (it takes part in restoring a level-playing field between multinational corporations that have the means to exploit not only a globalised financial system and market in order to avoid taxation but also those SMEs that do pay their taxes).
- Will possibly generate a substantial contribution to the EU budget.
- Is a well advanced project with the revised EC proposal for a Common Consolidated Corporate Tax Base (CCCTB).
- Can allow the MS to benefit from a deduction of their national contribution to the EU budget.
- The objective should be to harmonize the ECIT base between the MS and to define a minimum ECIT rate, both within a maximum period of five years.

**Financial transaction taxes (FTT)**

- Are expected to contribute to discouraging excessive speculation (particularly in the context of rising high-frequency trading).
- Will possibly generate a substantial contribution to the EU budget.

- Will possibly contribute to avoid future financial crises.
- Can allow the participating MS to benefit from a deduction of its national contribution to the EU budget.
- In this respect the initial proposal by the EC, which proposed a sharing of the tax revenues between the EU and the Member States provides a good basis.

**Carbon taxes or carbon adjustment mechanism at the EU's borders**

- Would tax goods entering the Single Market in order to compensate for the estimated carbon cost of their production compared to EU production.
- Will contribute to preventing environmental dumping.
- Would stimulate investments and innovation in cleaner production processes.
- Leads to a greener economy when imposed on all sources of greenhouse gas emissions.
- Can be an incentive for an economic and energy transition for developed and developing countries equally.
- Two options can be considered at the same time and must be linked to the borders adjustment mechanism in order not to disadvantage EU producers: a carbon tax based on emissions and a carbon tax based on the carbon content of goods.

**A reformed VAT-based own resource**

- Bears a strong European added value as it complements the Single Market rules.
- Will contribute to tackling tax avoidance, including for cross-border operations.
- Will contribute to promoting an efficient administration and an effective tax collection.
- However, diverse revenue sources used at MS level (differentiated impact on citizens) entail a lack of fairness and transparency, as well as an increased risk

of fraud, even though the EC just published proposals to reform VAT that will allow progress in these fields.

**Income from collection costs**

- Even though customs duties on imports from outside the EU constitute already an own resource, the 20 % retained by the MS as collection costs for the management fees should be abolished for the benefit of the EU own resources.

**Robotisation and Digital Sector Based Own Resource**

- As the wealth produced thanks to robotization partially avoids contributing to public accounts, it is legitimate to define a proper taxation on robotization.
- Would contribute to achieve our objective of fighting tax evasion at a time when some multinationals pay very little taxes in the EU while generating large profits (Apple, Google, Amazon and others) and thus should without doubt be subject to ECIT.
- Will reinforce fairness as it would mitigate tax competition between operators and countries.
- The fact that multinational companies act globally and have a limited physical presence in the countries of their activities pleads in favour of assigning such a revenue to the EU budget.

**Income stemming from the European Central Bank profits (e.g. Seigniorage)**

- Income from the ECB profits, e.g. Seigniorage (ECB revenue arising from issuing currency), shall constitute a new OR instead of being paid out to national treasuries.
- Would provide a real EU added-value given that it would have a direct link to the EU monetary union.
- Is fully in line with the subsidiarity principle (central banks profits should be allocated at EU level).

- Would simplify administration and would not entail any additional burden (Seigniorage is already collected centrally).
- Is in line with democratic accountability.
- Would not require a Treaty change.
- Could become one of the sources to finance a Eurozone budget aiming at macroeconomic stabilisation and upwards convergence.

## 5. STEPS TO ACHIEVE THE S&D OBJECTIVE OF AN IN-DEPTH REFORM OF THE EU'S REVENUE SYSTEM

Since 2013 our political group as, well as the society, has been leading a tough debate on the pressing need for a reform of the EU's revenue system.

Knowing about the failure of the system and the recurrent lack of the EU's resources to finance its political ambitions, the European Parliament, the Council and the European Commission **created the HLGOR** with the aim of carrying out a thorough review of the EU budgets revenue. In January 2017 the HLGOR presented the final outcome of its analysis.

In parallel to the work of the HLGOR the S&D Group launched a reflection on this topic, notably on the basis of Mr. Jacques Le Cacheux's study entitled *Corporate Income Tax as a Genuine Own Resource* as well as a workshop organised by the Progressive economy think-tank on the same topic.

The Parliament called already for new OR in its report on the mid-term review of the MFF 2014-2020 and in the resolution on the reflection paper on the future of EU finances.

The results of the ongoing S&D reflection will figure in our input to the **Parliament's report on the Reform of the EU system of Own Resources**. The report will be amended by the S&D Group at committee level at the beginning of January 2018, in view of an adoption by the plenary in March 2018.

The **S&D group must build a strong majority** around its proposal, taking also into account the way the European Commission will propose to design the 'euro area budget line' in its upcoming package on the future of the EMU, which will be published on 6 December.

Notwithstanding the expected attempts to water down the EP report, we will clearly state that our best candidates for new OR are the ECIT within, if necessary, an enhanced cooperation framework, as well as the FTT.

We hope to adopt a report with new political insights and incentives.

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**We need to reach out to every European via our enhanced S&D communication strategy.**
**We need to avoid that our reform might be associated with any idea of "a European tax" or an additional tax on citizens**.

**We have to convince the national parliaments and integrate them into the development process.**

In order to achieve this we are organising regular meetings with national parliaments' sister parties
(for instance through the S&D BUDG capital visits and conferences) and we are publishing the S&D BUDG Newsletter. We believe that we must use all available means in order to reach out to the EU citizens.

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In line with Article 225 TFEU we urge the European Parliament to call on the EC to submit a proposal for a revision of the OR system and we encourage the EC to launch in parallel a reform of the EU budget financing for the same period that will be covered by the next MFF.

We ask the EC to hear our Group's voice regarding the direction to take when deciding on the next steps concerning the OR.

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**It is high time that the EU takes action.**

**The S&D group supports an EU budget predominantly based on genuine own resources**
**and advocates for an ambitious reform of the own resources system within the MFF post 2020.**